Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2012

The Board of Directors of Shikun & Binui Ltd. (hereinafter: **"the Company"**) is honored to submit the Financial Statements of the Company for the period ending September 30 2012.

1. The Corporation and its Business Environment

a. General

The Company and its investees ("the Shikun & Binui Group" or "the Group") operate in Israel and outside of Israel in paving and infrastructure contracting work; building contracting; various aspects of real estate, including: purchasing, designing, improving and developing real estate; selling real estate, built-up and not built-up; holding and renting cash-generating properties; performing investments and activity in the fields of renewable energy including thermo-solar energy and photo-voltaic solar energy; treatment of water through water reclamation and desalination facilities; project concessions mainly in the field of infrastructure; as well as other activities concurrent to or complementary with the Group's stated areas of activity.

The Group's Israeli activity concentrates on the field of residential and nonresidential development, construction and infrastructure contracting, as well as projects in the field of infrastructure and construction carried out through private sector financing in lieu of government financing, as well as projects in the fields of renewable energy and of water treatment. Outside of Israel the group is mainly active in West and East African countries, Central America, South-Central Europe and West Asia, mainly in the field of infrastructure contracting, in the maintenance and rental of cash-generating properties as well as residential development. Furthermore, the Company has investments in the field of solar energy by way of photo-voltaic projects in Spain.

The Company operates in all areas of its activity according to existing approaches, which demand integration of economic, environmental and social considerations in the management and decision-making processes. The Group's human resources policy supports the business strategy and places the implementation of the Group's vision and its values for all of the group's workers in Israel and abroad at the center of its activities. In recent years the Group has developed new and advanced infrastructures for absorbing appropriate human capital and training it with the aim of establishing a new and powerful organizational culture matching the Group's vision.

b. The Group's Areas of Activity

The Group's activity is carried out on the basis of the five areas of activity detailed below (through seven segments, as detailed in Section 2 of this report).

- **<u>Infrastructure</u>** – in the field of infrastructure the group is mainly active through Shikun & Binui – SBI Infrastructure Ltd. and through its subsidiaries (outside of Israel) and Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. (in Israel).
  Shikun & Binui – SBI Infrastructure Ltd. has over 53 years of experience in the development of infrastructure abroad, mainly in Africa, Central America, East and Central Europe and West Asia. Shikun & Binui Ltd. – SBI Infrastructures is currently active in more than ten countries in the fields of contracting, paving, infrastructure and construction and is acting to deepen and broaden its activity in these countries. Furthermore, based on its accumulated knowledge in the various countries, the project management capabilities it has developed and the many years of reputation it

has accumulated, it is acting to expand its geographical deployment to neighboring countries and new regions, including the United States and Latin America.

Shikun & Binui – Solel Boneh Infrastructure Ltd. has for over 85 years focused on civil engineering ventures, national projects in the field of transportation and infrastructure and large-scale construction projects in Israel. In addition to its professional capabilities, Shikun & Binui – Solel Boneh Infrastructure Ltd. has its own manufacturing capabilities for pre-cast components, construction waste recycling, asphalt production, concrete factories and special bridging works and the manufacture of special bridging and construction elements.

The Group's capabilities in Israel and abroad in the field of infrastructures and large project management constitute the basis for the expansion of its activity in the field of concession projects, which are large-scale projects, and in particular in significant BOT and PFI projects in the field of infrastructure.

- **Real estate ventures** – in the field of real estate venture, the Group is mainly active through Shikun & Binui Real Estate Ltd. (in Israel), Shikun & Binui Real Estate Development B.V., and A.D.O Group Ltd. (abroad).

  Shikun & Binui Real Estate Ltd. (87% stake), which is active in Israel, combines over 56 years of experience in constructing residential apartments while implementing advanced architectural design, innovative work methods and international standards, including and while placing special emphasis on green construction standards for creating a sustainable and advanced living environment. Shikun & Binui Real Estate Ltd. provides a complete envelope of products and services, guaranteeing a high quality of life and a comfortable living environment. Over recent years it has positioned itself as the leader in the field of construction in Israel and most of the buildings construction of which has started since 2009 are being built under the green Israeli Standard 5281, and some are submitted for certification under the U.S. LEED standard. Shikun & Binui Real Estate Ltd. mostly operates in high demand areas, while placing emphasis on green projects such as its residential project in East Netanya ("Pure") and the Karkur Dreams Project, which was the first residential project in Israel to receive Green Standard approval. Furthermore, Shikun & Binui Real Estate Ltd. is active in nonresidential real estate development, particularly in the field of commerce. In this activity as well, the Company places special emphasis on construction in accordance with green construction standards, such as the students' dormitories project being constructed at Tel Aviv University (BOT project); the Seventh Avenue open shopping center in Beersheba; and the Ir Yamim Mall in Netanya, the design of which also took into account the relevant social and environmental factors from the design stage to the project's completion and realization.

  Shikun & Binui Real Estate Development B.V. is active in Central and Eastern Europe, in Hungary, Romania, Poland and the Czech Republic in the development of residential and nonresidential projects intended for sale or rental. As part of the Company's preparations for the financial situation around the world and in the countries it operates in particular, the Company has reduced its activity in some of the countries in which it is active that have yet to emerge from the crisis, and is currently acting to take advantage of business opportunities and make investments in projects in countries in which the local economy supports real estate projects (primarily in the Czech Republic and Poland). As a result, the Group has purchased the full holdings of one of the active partners in Poland, so that after the transaction the Company holds a 67% stake and is the controlling shareholder in this activity.

The A.D.O Group Ltd. (a public company in which the Company holds a 48% stake as of the reported date) is active in Germany in the purchase and improvement of residential apartments and commercial spaces intended to produce rental income.

- **Concession** – activity in these fields includes the financing, construction and operation of large-scale projects ("mega-project") mainly in the field of infrastructure and construction in Israel and abroad. The Company is continuing to expand its concession activity in Israel and abroad, which in the opinion of Company management contains significant growth potential. There has been a trend evident on behalf of the Israeli government in recent years to continue the use of the PPP format for the construction of infrastructure and to grant concessions to external factors for their implementation that allows, among other things, savings in the State's budgets by transferring most of the responsibility for performing supervision and control over the construction and operation of the project to the concession holder. On the other hand, following the implications of the current financial crisis, difficulty exists in receiving underwriting commitments at extensive amounts from financing bodies, an increase is evident in financing costs and difficulty exists in raising very long-term financing from international financing bodies. These difficulties and changes had a particular impact on the ability of concessionaires to secure financing for projects to which they had committed prior to the beginning of the financial crisis and they are taken into account in the new project proposal stage.

  The Company's concession activity includes, among other things, the construction of the Cross-Israel Freeway and its operation, which covers the central portion including its expansion and Segment 18 of the road (on September 13 2011 an agreement was signed for the sale of the project, subject to certain stipulations – for further details see Note 18.a.6 to the 2011 Financial Statements), the construction and operation of the Carmel Tunnel project, the construction of the Hadera Desalination Plant, its expansion and operation, restoring and maintaining roads in Northern Israel, constructing the Tel Aviv Courthouse project and constructing and providing operation, maintenance and instruction services at the Israel Police National Center (financial closing for this project taking place on April 4). On October 3 2011 the Company entered into an agreement for the purchase of rights to a pumped storage project (for further details see Note 31.c.6 to the 2011 Financial Statements). The Company continues to contend in these types of tenders in Israel and abroad.

  Note that the passing of the Competition Promotion and Centralization reduction Law may have a negative impact on the future growth of activity in Israel in this field.

- **Renewable energy** – in the field of renewable energy, the Company is active through its subsidiary Shikun & Binui Renewable Energy Ltd., with emphasis placed on the fields detailed below:

Solar-thermal power production field – initiation, financing, construction and operation of thermo-solar projects including:

1) Initiation of a project in planning stages to the scope up to 120 MW on land owned by Kibbutz Tze'elim in the Negev (the Shneor Project). The scope of the project will be determined according to rate arrangements.
2) On February 13 2011 the Company submitted, along with Siemens, a bid for a tender published by the Israeli Government for the financing, construction and operation of a 110 MW thermo-solar project at Aashalim. The Company passed the threshold conditions and was the single bidder for the tender. After submitting the tender, discussions were held between the group and the tender committee, at the conclusion of which the tender committee rejected the proposal but set a target price for the project while setting a date for the submittal of a revised version of the proposal. At the same time, for reasons of its global policy, the Siemens Corporation decided to withdraw from the group, and the Company estimates that the replacement of Siemens by Abengoa Solar, a world leader in the thermo-solar field, will be approved, subject to the approval of the required pre-sorting papers. The Group is acting to prepare a revised proposal for the state in this project.
3) The development of independent technological-engineering capabilities in the thermo-solar field. On February 22 an experimental Shikun & Binui Renewable Energy Ltd. thermo-solar facility was inaugurated at Ardom (near Kibbutz Yotvata).

Photo-voltaic power production field – initiation, financing, construction and operation of projects for the production of photo-voltaic solar power on rooftops and on land. The Company also holds a 50% stake in a Spanish company holding photo-voltaic projects on land and rooftops in Spain with a total installed scope of 15 MW.

Conventional energy-based power production field – production and sale of power to the Electric Company at a total scope of 26 MW, using the Ashdod Power Station, which operates on mazut, uses "peaker" and operates on an availability basis, which is expected to be converted to the production of power on a natural gas basis.

Natural gas power production field – development of a combined cycle natural gas-based private power production project in the Ashdod Industrial Zone, at an output of 120 MW, and the development of a project for the conversion of the existing Ashdod power plant at an output of 26 MW to a natural gas plant.

- **Water**

In the field of water, the Group's activity mainly takes place through Shikun & Binui Water Ltd. and includes the design, construction, operation and maintenance of well improvement facilities, and providing water and sewage infrastructure management services. In addition, the Company is acting to develop additional technological capabilities and to expand its water treatment activity, through the construction of freshwater reclamation facilities as well as the design, construction and operation of salt water desalinization facilities. The Company intends to develop its water activities mainly by purchasing companies or activities in the field and developing its own capabilities, in order to create engineering capabilities that will allow the initiation and execution of projects in the field in Israel and abroad.

c. **The Global Economy**

Over recent months, the economic slowdown has continued, and has led decision makers to take, in an almost coordinated fashion, additional expansionary steps. Unlike steps taken in the past, the current monetary expansions are not limited in amount or time, and in this regard reduce the risk in capital markets and provide support for venture assets. The slowdown is particularly evident in key markets that served as growth engines such as India, China and Brazil, where aggressive behavior on behalf of decision makers, central banks and governments is to be expected, in an attempt to support the economy. This development was expressed by revising forecasts downward – both relative to the growth rate in the GDP of the important markets and relative to the growth rate of international trade. In 2012 and 2013 the global growth rate is expected to grow by 3.3% and 3.6%, respectively, and OECD country imports are expected to grow at a low rate of just 1.9% in 2012. At the same time, interest rates in developed countries are expected to remain at a low level this coming year.

Global inflation rates are expected to remain low, in spite of an expansive monetary policy employed by central banks in Europe, China, Australia, South America and Israel. The Bank of Israel estimates that inflation levels will be higher than the previous forecast. The Brent price of a barrel of oil increased to $110 from a price of $98.6 in June, and global agricultural produce prices had increased significantly in recent months, and are expected to rise further in the coming quarters.

The Euro Zone

The EU economy has once again entered a recession. The GDP of the EU shrunk by 0.1% in the third quarter, after a 0.2% drop in the second quarter. The German and French economies increased, but Italy and Spain listed negative growth. Since the Brussels summit held in June of Euro Zone leaders, and the decisions regarding the establishment of a pan-European financial supervisory mechanism, the establishment of a growth fund and the provision of €100 billion to rescue the Spanish banks, it seems has though the financial situation in the EU has continued to deteriorate. A distinct sign of the depth and complexity of the crisis can be seen in the fact that this subject was the issue most discussed at the IMF conference in Tokyo last October.

The intense activity in recent months of the Zone’s decision makers and in particular that of the ECB, the European Commission and that of Germany as the economic leader, indicate that a very strong shared interest exists to maintain the integrity of the Zone and that this is a primary political interest of many of the states comprising it. At the same time, as to the questions regarding Greece’s continued Euro Zone membership, the increased unemployment in EU states, Spain’s rescue and the stability of the banking system, no long-term solution has yet been found.

Yields on Spanish and Italian debentures dropped in recent months in light of the quantitative expansion of the ECB, and as of October 2012 reached 5.4% and 4.7%, respectively. At the same time, Spain’s credit rating has continued to drop and is now at BBB-, just one level above junk bonds. Note that an additional rating decrease could bring about extensive sales of debentures in investment portfolios in which the possession of debentures without an investment rating is prohibited, and thus lead to a significant increase in yields.

European unemployment rates are continuing to increase, with the average unemployment rate in the Zone at the end of Q3 reaching a record 11.4%, with a youth unemployment rate of 22.7%. Particularly evident are the unemployment levels in Spain and Greece, which in August reached 25.1% and 24.4%, respectively. The lack of a significant improvement in the labor market, which influences both demand and the state's tax revenues, continues to make it difficult for Euro Zone members to achieve sustainable recovery.

The United States

Partially surprising macro data indicates that the state of the U.S. economy is continuing to increase at a steady rate. According to data published by the U.S. Department of Labor, unemployment claims have dropped by 30,000 claims to a level not seen since February 2008. In addition, the average unemployment claims in the past 4 weeks of September, which is considered a more reliable reflection of the state of unemployment, dropped by 11,500 to 364,000 claims, a 6-month low. In total, according to the data, unemployment has dropped from 8.1% to 7.8%, the lowest level since President Obama entered office.

A more careful examination of the U.S. employment market indicates that unemployment may have dropped since the end of the last quarter, but participation in the work market remains low at 63.6%, a 20 point drop from the previous quarter, with no improvement in chronic unemployment data, which continue to be high, with the average unemployment time at 39.8 weeks. The chronically unemployed (unemployed for over 27 weeks) constitute 40.1% of all unemployed.

According to data from the U.S. Department of Commerce, exports dropped 1% to $181.3 billion, with demand for American products and in particular for vehicles and agricultural products decreasing. Imports also dropped in August, to $225.5 billion, a 0.1% decrease, due to a drop in purchases of imported vehicles and industrial products.

U.S. growth rates for the third quarter of 2012 are estimated at 2% (in yearly terms). Growth in the U.S. in the second quarter of 2012 was revised downward to 1.3% from 1.7% in the previous reading (in yearly terms), after a growth rate of 2% in yearly terms in the first quarter of 2012.

Yields on government debentures increased slightly from historical lows last July, with the 10-year yield still very low at circa 1.65%, in light of the continuation of the expansive monetary policy taken by decision makers throughout the curve (QE32 and the continuation of the operation twist) and the announcement that the Fed rates would remain at their current levels at least until mid-2015.

The Israeli Economy

The GDP, at fixed prices and after deducting seasonal influences, increased by 2.9% in the third quarter of 2012, after a 3.4% increase in the second quarter and a 3.1% increase in the first quarter of 2012.

According to projections made by the Research Division of the bank of Israel, the GDP is expected to increase by 3.3% in 2012. The 2012 growth forecast was revised by 20 points, a bit above the last forecast posted in June 2012. The revision largely derives from surprisingly good GDP growth data in the first half of the year, largely influenced by exports, a surprise that was partially offset by a more pessimistic estimate for the second half of the year.

The GDP is expected to grow a rate of 3% in 2013. This forecast was revised downward in light of the global slowdown and in light of government taxation steps intended to contribute to the stability of the economy.

The percentage of jobless out of the total work force, according to seasonality-deducted data, increased to 6.9% in August, after reaching 6.6% in July. At the same time, participants in the work force increase to 64.3% in August from 64.1% in July.

According to Central Bureau of Statistics data, since the beginning of the year (January-September), the economic index increased by 2.1%. In the past twelve months (September 2012 - September 2011), the general index increased by 2.1% as well. According to the estimates of the Research Division of the Bank of Israel, the inflation rate over the next 12 months will be 2.2%, above the middle of the inflation goal area.

The expected Bank of Israel interest rates in one year is 2.1%, according to the market and according to the forecasters' average. The primary reason for this interest level is the low level of long-term real interest rates here and around the world, which are expected to remain at a low level over coming years. On the other hand, at this stage the level of real activity and the financial situation do not support a continued decrease in interest rates.

The Construction Industry

During the first quarter of 2012, the growth of investment in fixed assets slowed down, turning into a contraction of 1.2% in the second quarter. On the other hand, the number of apartments under active construction amounted to circa 83,500 apartments by the end of June, and was some 9% higher than the number of apartments under active construction in the end of June 2011. This is the highest number of apartments under active construction since June 1999.

In the first half of 2012, investments in construction reached 8.9% of the GDP. This rate has been increasing constantly since 2007, when it reached 7.8%. The increase in the weight of the construction industry relative to the total GDP is largely an expression of the increase in residential construction starts in recent years. Ministry of Construction and Housing data indicates that the weight of investments in residential construction out of total construction investments has been increasing in recent years and reached 63% in 2012, from 53% in 2007. The increase in this period derives from an increase in investments in residential construction, along with fluctuations in nonresidential investments.

Residential Construction

According to data from the Central Bureau of Statistics and the Ministry of Construction and Housing, the number of new apartments remaining for sale in late September 2012 (20,170 apartments) was 4% higher than that listed in late September 2011. Out of the new apartments remaining for sale by the end of September 2012, are 14,970 apartments under construction via private enterprise and 5,200 apartments under construction via public enterprise. The inventory of apartments seems to have stabilized. According to trend data, the increase noted in the number of new apartments constructed by way of private enterprise listed continuously since November 2009 has stopped, with a moderate decrease listed in June-September 2012.

The number of building permits reached 12,900 in the first five months of 2012, a 17% drop compared to the corresponding period last year. A slow decrease in the number of building permits has continued since the beginning of the year, providing an initial estimate regarding construction starts in the Israeli economy. 2011 and 2010 were characterized by a particularly high amount of permits, 38,450 and 36,650, respectively.

The construction of 19,270 new apartments were started in the first half of 2012, of which 33% are being constructed in 1 and 2 apartment buildings (private homes and two-family homes). The number of new apartment starts in this period was 16% lower compared to the corresponding period last year, and 14% lower than the first half of 2011. According to trend data, a 6.6% average decrease per quarter occurred in the number of apartments construction of which started from the third quarter of 2011, after an average 5.5% increase per quarter in the past four quarters (Q3 2010 to Q2 2011). The largest number of apartments the construction of which was started in the first half of 2012 was listed in the central district, constituting 33% of total apartments.

Construction for 17,940 apartments was completed in the first half of 2012, 4% higher than the corresponding period last year. 38% of the apartments were constructed in 1-2 apartment buildings. The Southern District saw a 57% increase in the number of apartments completing construction compared to the corresponding period last year, while the Tel Aviv District saw an 18% decrease.

Over the course of January-July 2012, a drop was listed in the numbers of apartments needed in all districts, with the exception of the Jerusalem and Northern Districts (43% and 5% increases, respectively), compared to the corresponding period last year. Study of trend data regarding the amounts of new apartments wanted in recent years indicates an increase (with fluctuations) from 2,600 apartments a month to 3,500 apartments in the beginning of 2011. This number dropped over the course of 2011, and has stabilized at about 3,000 apartments since 2012. The amount of new apartments needed in January-September 2012 was some 1% higher than May-December 2011, but 7% lower than the corresponding period in 2011.

Mortgages totaling 25,446 million NIS were granted in January-July 2012. This number is 13% lower than the corresponding period last year. At the same time, the monthly new mortgage level increased significantly over the course of the period, from 3 billion NIS in January to a peak of 4.9 billion NIS in July and 5.9 billion NIS in August, probably as a result of mortgages taken early due to an expected increase in VAT. In

September, new mortgage data amounted to just 3.2 billion NIS, probably due to the paucity of work days during the holiday period.

Of the new apartments sold to the general public, 11,170 were constructed as a result of private enterprise and 4,720 were a result of public enterprise (updated as of October 21 2012).. The total number of new apartments sold during this period saw a 6% increase compared to the corresponding period last year.

The prices of new and second-hand apartments stabilized in early 2012. The average apartment price in the second quarter of 2012 was 1.15 million NIS, a 2% drop compared to the corresponding quarter last year (a real drop of 3%). This decrease is particularly evident in the Jerusalem, Central and Tel Aviv Districts. According to the Central Bureau of Statistic’s apartment price survey, apartment prices have undergone a slight 1% increase over the past twelve months.

The share of construction not for sale (apartments built for personal use, purchase groups, rental and more) out of the total wanted amount of new apartments ranged between 82% in the Northern District and 28% in the Central. Of all apartments not for sale whose construction has started, 1,900 (16%) were constructed in purchasing groups, compared to 2,890 (19%) in the corresponding period in 2011.

The Residential Construction Input Prices Index remained unchanged in September 2012, at 103.7 points (on the basis of July 2011 = 100.0 points). This index has increased by 2.9% since the beginning of the year.

Nonresidential Construction

According to Ministry of Construction and Housing data, the first half of 2012 saw a real 9.2% increase in nonresidential housing investments compared to 2011. Total investments amounted to 17 billion NIS (in current prices). The increase in this framework follows trends from the previous two years. In 2011 as a whole, investments in nonresidential construction amounted to 34.3 billion NIS (in current prices). The weight of investments in infrastructure dropped to 17% in 2011 out of total construction investments, after reaching 22% in 2006-2007.

The Commercial and Office Construction Input Prices Index reached 101.8 points in September 2012, at 101.8 points (on the basis of January 2012 = 100.0 points), a 0.3% increase over the June index, which reached 101.5 points. This index has increased by 1.8% since the beginning of the year. The Paving and Bridging Construction Input Prices Index reached 117.7 points compared to 116.25 points in the previous quarter (on the basis of January 2012 = 100.0 points), a 1.3% increase. This index has increased by 5.3% since the beginning of the year.

Investments in Infrastructure and Roads

Data from the National Road Council’s Multi-Year Plan for 2011-2016 indicates that the assessed new projects in the Multi-Year Plan are estimated at 13 billion NIS. The scope of expenses in 2011-2016 for these projects is estimated at 8.8 billion NIS.

The road network development plan also includes projects that the Company began carrying out in 2010-2011 ("Budgeted Projects"). The total scope of expenses for these projects in 2011-2016 amounts to 3.3 billion NIS.

In addition, continuation of the trend of government investment and the increase in the scope of works depends on whether the large projects will come to fruition and whether the budgets will be realized.

d. Material Events During and Subsequent to the Reported Period

Issuance of Debentures

Following that stated in Note 27.(4).h to the 2011 Financial Statements, on January 1 2012 the Company issued debentures (Series 5) in return for a total of 235 million NIS.

In addition, on June 26 2012 the Company issue debentures by way of a Series 5 expansion in return for a total of 155 million NIS.

In addition, subsequent to the reported date, on October 18 2012 the Company issue debentures by way of a Series 5 expansion in return for a total of 537 million NIS. For further details see Section 7 of this Report.

The Ashbod Transaction

On March 15 2012 a subsidiary purchased an additional stake in a company holding Polish companies acting in the field of real estate enterprises in Poland, so that after the transaction the subsidiary controls the company in question. As a result of the transaction, the subsidiary listed a profit of 12 million NIS. For further details see Note 4b to the Financial Statements.

Financial Closing of the Israel Police National Training Center Construction Project

The financial closing of the project for the construction of the Israel Police National Training Center was completed on April 4 2012 at a total scope of financing of 691 million NIS. For further details see Note 4c to the Company's Financial Statements.

Dividend Distribution

On March 28, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 65 million NIS, which were paid on April 23 2012.

On May 28, 2012, the Company's Board of Directors decided to distribute dividends to the amount of 65 million NIS, which were paid on July 2 2012.

On August 29, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 40 million NIS, which were paid on October 22 2012.

On November 25, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 80 million NIS, to be paid on December 20 2012.

For further details see Note 4e to the Company's Financial Statements.

Texas Highway 99 Tender

On August 22 2012 a joint enterprise, in which the Group held a 25% stake, submitted a proposal as part of the Texas Highway 99 tender. The road has a total length of 60 km. The project cost is estimated at $1.5 billion.

On September 27 2012 the Company received notice that the joint venture offer was not selected as the winning bid in the tender in question.

Securities Framework for Planned Activity in the United States

In August 2012 the Company entered into an agreement with the Zürich American Insurance Company for the receipt of a securities framework intended to serve it mainly as part of its planned activity in the United States, to the amount of $400 million.

For further details see Note 4g to the Company's Financial Statements.

Agreement in principle to Finance the Ashdod Power Plant Expansion project

In August 2012 a subsidiary signed an agreement in principle with Bank Hapoalim to finance an expansion project for the Ashdod Power Plant, to the amount of 300 million NIS. For further details see Note 6d to the Company's Financial Statements.

Agreement to Pave and Expand a Road in Nigeria

In October 2012 a subsidiary entered into an agreement with the Nigerian Government for a paving and expansion project for a road in the Shgamu-Benin region of Nigeria. The contractual scope of the compensation for the project is $390 million US. For further information see Note 5a to the Company's Financial Statements.

2. Business Activity Results

The following is concise data regarding business activity results.

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Revenues from Works and Sales	4,700	3,927	1,371	1,262
Cost of works performed and sales	3,773	3,091	1,128	1,025
Gross Profit	927	836	243	237
Proceeds from the sale of investment property	5	10	-	-
Sales and marketing expenses	(25)	(24)	(6)	(11)
General and administrative expenses	(247)	(256)	(80)	(91)
Other operating revenues (expenses), net	(9)	77	(14)	1
Operating earnings	651	643	143	136
Financing costs, net	(126)	(117)	(43)	(27)
The Company's share of the profits (losses) of investees	(23)	(32)	(10)	4
Profit before taxes on income	502	494	90	113
Taxes on income	(135)	(119)	(19)	(31)
Profit for the period	367	375	71	82
	======	======	======	======

Shikun & Binui's operating segments are:

- Infrastructure and construction abroad – carried out through Shikun & Binui SBI Infrastructures Ltd.
- Infrastructure and Construction in Israel – carried out via Shikun & Binui – Solel Boneh Infrastructure Ltd.

- Real estate development in Israel – carried out via Shikun & Binui Real Estate Ltd.
- Real estate development abroad – carried out via Shikun & Binui Real Estate Development B.V. and the A.D.O. Group Ltd.
- Renewable Energy – carried out via Shikun & Binui Renewable Energy Ltd.
- Water – carried out via Shikun & Binui Water Ltd.
- Concession activity – includes concession activity in Israel, carried out directly and through the following key affiliated companies: Derech Eretz Highways (1997) Ltd., the Carmelton Group Ltd., H2ID Ltd., the Shoval Project Tel Aviv Ltd. and Polycity Ltd., as well as a group of operation companies operating on concession projects. Activity is also carried out via Shikun & Binui – Northern Lanes Ltd.
- Others – includes the Company's holdings in activities not part of its core business.

For further information see Note 7 to the Company's Financial Statements.

a. Revenues from Works and Sales

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	2,477	2,042	729	603
Infrastructure and construction in Israel	1,351	1,150	434	440
Israeli real estate ventures	870	702	228	199
Foreign real estate ventures	12	4	7	2
Renewable energy	88	73	27	31
Water	29	29	12	11
Concessions	106	230	23	85
Adjustments	(233)	(303)	(89)	(109)
Total consolidated	4,700	3,927	1,371	1,262
	=====	=====	=====	=====

Revenues from works and sales in the first nine months of 2012 amounted to a total of 4,700 million NIS compared to a total of 3,927 million NIS in the corresponding period last year, a 773 million NIS increase constituting a 20% increase relative to the corresponding period last year. The main changes that occurred in the first nine months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 435 million NIS increase in revenues. The increase in revenues in this segment derives from the expansion of activities in the counties in which the Company is active and from entry into new countries, such as Tanzania Note that the changes in exchange rates between the NIS and the USD have an effect on the growth in foreign revenues. A the dollar's rate of exchange increased compared to last year, an additional increase of 209 million was listed in revenues in this segment compared to last year. The Israeli infrastructure and construction segment saw a 201 million NIS increase from the expansion of activity. Furthermore, the Israeli real estate ventures segment noted a 168 million NIS increase. In the Israeli real estate venture sector, recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the apartments' sale in practice. The Company performed 451 apartment occupations in the first nine months of the year compared to 441 apartment occupations in the corresponding period last year; and in addition, the average price of an apartment occupied was higher than the average price of an apartment occupied in the corresponding period last year, largely due to projects in New Ramat Aviv Gimmel, Givatayim, Kiryat Ono and Ir Yamim. At the same time, there were sales of land and lots in this segment during the reported period to the amount of 15 million NIS, while in the same period last year, lots were sold in Kiryat Ono and Tzur Hadassah and land was sold in Ashkelon, Pardes Hannah and Kfar Saba in the same period last year to the amount of 87 million NIS. In addition, a 15 million NIS increase in revenues occurred in the renewable energy sector as a result of increased activity of the Ashdod power plant. On the other hand, a 124 million NIS decrease occurred in concession segment revenues due to work on a BOT project – restoration and maintenance of roads in northern Israel, the construction stage of which is expected to conclude this year.

Revenues from works and sales in the third quarter of the year increased by 109 million NIS relative to the same quarter last year, amounting to 1,371 million NIS – a 9% increase. The key changes compared to the corresponding period last year are as follows: a 126 million NIS increase in the foreign infrastructure and construction segment. Note that a total of 80 million NIS from the increase relative to the corresponding period last year derives from the increase in the exchange rate of the USD over the course of the period. Revenues increased by 29 million NIS in the Israeli real estate ventures segment, deriving from the fact that the average price of an apartment occupied was higher than the average price of an apartment occupied in the corresponding period last year, offset in part by the fact that the Company occupied just 97 apartments in the third quarter of the year compared to 151 apartments in the corresponding quarter last year. On the other hand, a 62 million NIS decrease occurred in the concession segment due to work on a BOT project – restoration and maintenance of roads in northern Israel, the construction stage of which is expected to conclude this year.

b. Gross Profits

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	482	483	123	136
Infrastructure and construction in Israel	85	76	26	27
Israeli real estate ventures	358	275	99	62
Foreign real estate ventures	(14)	(18)	(13)	-
Renewable energy	12	16	5	6
Water	1	6	1	2
Concessions	(4)	2	(1)	-
Adjustments	7	(4)	3	4
Total consolidated	927	836	243	237

Gross profits in the first nine months of the year amounted to a total of 927 million NIS compared to a total of 836 million NIS in the corresponding period last year. The gross profit rate in the first nine months of the year amounted to 19.7% compared to 21.3% in the corresponding period last year. The 91 million NIS increase in gross profits in the first nine months of the year compared to the corresponding period last year mostly derives from the increase in gross profits in the Israeli real estate ventures segment (83 million NIS) originating in the occupation of apartments in housing projects. Note also that gross profits in this segment dropped relative to the corresponding period last year, thanks to the drop this year in lot and land sales due to which the Company has particularly high gross profit rates. The drop in the gross profit rates as a result if the drop this year in the sale of lots and land in this segment was offset thanks to an increase in gross profit rates from the sale of housing projects as a result of the increase in the average price per housing unit occupied this year compared to the corresponding period last year. In addition, an increase was noted in gross profit deriving from the increase in the scope of activity of the Israeli infrastructure and construction segment (6 million NIS), offset by a drop in the concessions segment (6 million NIS).

The decrease in the gross profit rate in the first nine months of the year compared to the same period last year largely derives from the foreign infrastructure and construction segment, among other things from the receipt of final accounts and the approval of exceptional claims that contributed to additional receipts and exceptional profitability in the corresponding period last year.

The 6 million NIS increase in gross profits in the third quarter of the year compared to the corresponding period last year mostly derives from the Israeli real estate ventures segment (a total of 37 million NIS) offset by a drop in the overseas real estate ventures segment (a total of 13 million NIS), primarily deriving from a provision impairment of 14 million NIS as a result of land in Hungary and a decrease in the overseas infrastructure and construction segment (a total of 13 million NIS).

c. Administrative and General Expenses

Administrative and general expenses in the first nine months of the year amounted to a total of 247 million NIS, a 9 million NIS increase compared to the corresponding period last year (a total of 256 million NIS). An increase was listed in the reported period in office maintenance expenses, which include rental expenses for the new office building to which the Company moved; on the other hand, a decrease in expenses was listed due to tenders the Company is competing for in Israel and abroad.

Administrative and general costs amounted to 80 million NIS in the third quarter of the year compared to a total of 91 million NIS in the corresponding quarter. Most of the change derived from a decrease in expenses due to mega-tenders the Company is competing for in Israel and abroad.

d. Other Operating Revenues (Expenses), Net

These net expenses amounted to 9 million NIS in the first nine months of the year compared to net revenues of 77 million NIS in the corresponding period last year. The following are details of the key revenues and expenses included in this item:

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Profit from the revaluation of investment in affiliate (1)	12.0	82.2	-	-
Loss from the issue of an affiliate to a third party (2)	(6.0)	-	(6.0)	-
Provision due to balances the realization of which is in doubt	(7.2)	-	(7.2)	-
Others, net (3)	(8.1)	(5.6)	(0.4)	0.6
	(9.3)	76.6	(13.6)	0.6

(1) The revaluation profit was listed following the acquisition of control in a Polish affiliate (the Ashbod deal), the loss of material influence over it in accordance with the value of the affiliate as reflected in a transaction with third parties; see also Section 1d of this report. Last year, due to the revaluation of investments in German associates, see also Note 18.a.11 to the Company's 2011 Financial Statements.

(2) In September 2012 the Company issued shares of an affiliated company from convertible loans. The affiliate also issued additional shares to institutional investors so that the Company's stake in the affiliate dropped after the conclusion of the transaction. As a result of the issue of shares to institutional investors, a 6 million NIS loss was listed.

(3) Including a provision for compensation due to the obligations of a subsidiary, Shikun & Binui Real Estate Ltd., according to a December 31 2009 allocation agreement to a number of classified investors, to act to list its shares for trade on the stock exchange no later than December 31 2012. The allocation agreement stated that failure to list the share would not be considered a violation of the agreement, but would award the investors with monetary compensation that sum of which will increase in accordance with the timing of the listing for trade of Shikun & Binui Real Estate shares (for details see also Section 22.1 of the Company's 2011 Description of Corporate Business). As of this report, Shikun & Binui Real Estate is negotiating with the institutional investors in question, to postpone the last date for listing for trade as noted above, in return for a negligible compensation. If and inasmuch this understanding does not lead to a binding agreement, the Company estimates that Shikun & Binui Real Estate will act to register it for trade no later than March 31 2013.

e. Operating Profit

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2012	2011	2012	2011
Infrastructure and construction abroad	370	385	84	101
Infrastructure and construction in Israel	31	26	8	9
Israeli real estate ventures	290	224	82	43
Foreign real estate ventures	(8)	55	(18)	(4)
Renewable energy	(13)	(14)	(3)	(6)
Water	(8)	(10)	(2)	(5)
Concessions	(6)	(8)	(1)	(1)
Others	(2)	-	(1)	-
Adjustments	106	83	29	28
Total by operating segments	760	741	178	165
Segment-wide expenses	(109)	(98)	(35)	(28)
Total operating earnings	651	643	143	137
	====	====	====	====

Operational profits in the first nine months of 2012 amounted to 651 million NIS, an 8 million increase over the corresponding period last year. The increase derives mostly from an increase in operational profits in the Israeli real estate ventures segment (66 million), offset by the overseas real estate ventures (a 63 million NIS decrease), mainly as a result of revenues listed in the second quarter last year due to the revaluation of investments in German associates, which brought about a particularly high operational profit (a total of 82 million NIS).

Operational profits in the third quarter of the year amounted to a total of 143 million NIS compared to a total of 137 million NIS in the corresponding quarter last year. Most of the change derives from a 39 million NIS increase in the Israeli real estate ventures segment, offset by a 17 million NIS decrease in the overseas infrastructure and construction segment and a 14 million decrease in the overseas real estate ventures segment.

f. Financing Costs, Net

Net financing costs in the first nine months of 2012 amounted to a total of 125 million NIS compared to a total of 117 million NIS in the corresponding period last year. Financing costs referring to long-term credit in the first nine months of the year amounted to a total of 264 million NIS compared to a total of 250 million NIS in the corresponding period last year. Most of the costs due to long-term credit are influenced by the changes in the rate of increase of the Consumer Price Index. In the first nine months of the year, a 2.12% increase was noted compared to a 2.7% increase in the corresponding period last year. The drop in inflation relative to the corresponding period last year brought about a decrease in credit linkage costs, but on the other hand, an increase was listed in interest expenses on long-term credit due to the increase in credit volume. In addition, a decrease was listed to the amount of 16 million NIS in financing revenues deriving from loans granted to affiliates, which are also mostly influenced by the change in the CPI increase rate. A 4 million NIS increase occurred in financing costs referring to short-term credit. On the other hand, included in the reported period was financing revenues from franchise arrangements (primarily due to the Northern Lanes project) at sums 16 million higher than last year.

Net financing costs amounted to 43 million NIS in the third quarter of the year compared to 28 million NIS in the corresponding quarter last year, with the 15 million NIS increase compared to last year largely deriving from the 9 million NIS increase in financing costs referring to long-term credit and a 4 million NIS in financing costs referring to short-term credit.

g. Taxes on Income

Tax expenses amounted to 135 million NIS in the first nine months of 2012 compared to 119 million NIS in the corresponding period last year. Tax expenses increased by 16 million NIS relative to the corresponding period last year, primarily due to the increase in profits in the Israeli real estate ventures segment, following which Israeli tax expenses also increased by 24 million NIS, while on the other hand, an 8 million NIS decrease occurred in overseas tax expenses relative to the corresponding period last year, due to the cancellation of provisions as a result of the closing of assessments of an overseas subsidiary for 2007-2011.

Tax expenses amounted to 19 million NIS in the third quarter of the year compared to a total of 30 million NIS in the corresponding quarter. The drop in tax expenses largely derives from the cancellation of tax provisions in the third quarter of the year as a result of the closing of assessments of an overseas subsidiary as noted above, partially offset as a result of the increase in tax expenses in Israel, primarily due to the increase in profits in the Israeli real estate ventures segment.

h. Losses of Investees, Net

The Company's share in the expenses of investees the first nine months of 2012 amounted to a loss of 23 million NIS compared to a loss of 32 million NIS listed in the corresponding period last year. The 9 million NIS change derives from losses in European investees acting in residential housing ventures listed in the corresponding period last year.

The Company's share of the results of investees in the third quarter of the year amounted to a loss of 10 million NIS, compared to a gain of 4 million NIS loss in the corresponding period last year. Revenue was listed last year from the cancellation of losses listed by a subsidiary active in the production of electricity in Span (with the Company's share being 18 million NIS, for further details see Note 18.a.10 to the Company's

2011 Financial Statements), with the revenue in question listed last year partially offset as a result of losses in European investees operating in housing ventures.

i. Earnings for the Period

Earnings for the first nine months of 2012 decreased by 8 million NIS compared to the corresponding period last year, amounting to 367 million NIS compared to 375 million NIS. After neutralizing the profit from the revaluation of holdings in Germany last year, which produced a profit of 82 million NIS, the profit in the period increased from 293 million NIS to 367 million NIS, a 25% increase. Profits in the third quarter of the year amounted to a total of 71 million NIS compared 82 million NIS in the corresponding quarter last year. After neutralizing revenues from the cancellation of a provision to loss listed by an affiliate operating in the production of electricity in Spain, which produced a profit of 18 million NIS, profits in the third quarter of the year increased from 64 million NIS to 71 million NIS.

3. Accumulated Orders

The Company’s accumulated orders in the field of construction and infrastructure contracting as of September 30 2012 amounted to 10.5 billion NIS, of which 7.7 billion NIS ($2 billion) is for overseas activity. At the end of last year, the Company’s accumulated orders in this field amounted to 9.5 billion NIS, of which 7.8 billion NIS ($2.0 billion) was for overseas activity.

4. Apartment Sales

In the first nine months of the year the Company (the Company’s share – not including the share of partners in joint projects) sold 543 housing units in Israel in return for 794 million NIS compared to 388 housing units in return for 585 million NIS in the corresponding period last year.

	Housing Units Sold	Sales Not Including VAT (In Millions of NIS)	Average Per Apartment Without VAT (In Thousands of NIS)
1-9/2012	543	782	1,462
7-9/2012	237	343	1,447
1-9/2011	388	585	1,508
7-9/2011	53	103	1,944

In the period from the start of October until the publication of the report the Company sold 44 housing units in return for 66 million NIS.

5. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 801 million NIS compared to a total of 690 million NIS in the corresponding period last year. The cash flow deriving from current activity in the first nine months of 2012 amounted to 30 million NIS, compared to a total of 198 million NIS used for current activity in the corresponding period last year. The main change relative to last year derives mainly from the purchase of land inventories and an increase in payables due to franchise agreements at higher sums than last year.

- The cash flow used for investment activity in the first nine months of 2012 amounted to 200 million NIS, compared to a total of 89 million NIS in the corresponding period last year. The key differences compared to the same period last year in cash flows used for investment activity largely derive from a reduction listed last year in banking deposits (a total of 216 million NIS).
- The cash flow used for financing activity in the first nine months of 2012 amounted to a total of 29 million NIS compared to 101 million NIS in the corresponding period last year. In the first nine months of 2012 the Company redeemed credit to the amount of 473 million NIS and paid interest to the amount of 215 million NIS. On the other hand, the Company raised 413 million NIS in credit and issued debentures to the amount of 387 million NIS, and paid dividends to shareholders to the amount of 128 million NIS. In comparison, in the corresponding period last year the Company redeemed credit to the amount of 492 million NIS and paid interest to the amount of 173 million NIS. On the other hand, the Company raised 622 million NIS in credit and issued debentures to the amount of 192 million NIS, and paid dividends to shareholders to the amount of 197 million NIS.

The Company’s working capital as of September 30 2012 amounted to 585 million NIS compared to 471 million NIS at the end of 2011. The Company has balances of cash and cash equivalents to the amount of 1,060 million NIS and unused credit frameworks to the amount of 791 million NIS.

The Company's separate interim financial information summary (hereinafter the Separate report) as of September 30 2012 has a working capital deficit if 13 million NIS. In the opinion of Board members, after being presented with data by Company management, the deficit in question in working capital in the Separate Report does not indicate a liquidity problem. This ruling is based on the cash balances held by the group, on its cash flow from current activity, on its expected future cash flow, on the Company’s assets and the Group’s credit frameworks.

6. Financial Status

	Debentures and Credit from Banks and Others	Cash and Cash Equivalents	Deposits and Short and Long-Term Loans	Net
	Millions of NIS			
Infrastructure and construction abroad	9	480	88	(559)
Infrastructure and construction in Israel	1	78	79	(156)
Israeli real estate ventures	990	171	314	505
Foreign real estate ventures	253	22	6	225
Renewable energy	45	34	61	(50)
Water	12	2	4	6
Concessions	482	2	112	368
Company HQ	3,373	271	6	3,096
Total consolidated	5,165	1,060	670	3,435

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2012

a. Equity

The Company's equity as of September 30 2012 amounts to 1,230 million NIS, compared to 969 million NIS on December 31 2010. The 261 million NIS increase in equity largely derives from profits in the first nine months of 2012 (to the amount of 367 million NIS), from adjustments due to the translation of the financial statements of overseas subsidiaries (to the amount of 48 million NIS) largely prepared in dollars and euros, and from a 47 million NIS increase in non-controlling interests (mainly as a result of purchasing the full holdings of one of the partners in activity in Poland as well as due profits attributed to non-controlling interests.). This increase was partially offset by dividends to the amount of 167 million NIS declared for shareholders, dividends to the amount of 9 million distributed by a subsidiary to minority shareholders and from a 12 million NIS hedge fund.

b. Current Assets

Total current assets held by the Company amount to 5,330 million NIS as of September 30 2012. The balance of current assets increased by 304 million NIS in the first nine months of the year, compared to the end of the previous year. The key changes are as follows: a 407 million NIS increase occurred in the balance of customer income receivable (of which 299 million were NIS abroad). The increase in the foreign customers balance derives mainly from collection delays. Subsequent to the reported date and as of the approval of the Financial Statements, the Company received 490 million NIS from overseas customers. In addition, a 116 million NIS increase was listed in the inventory of buildings for sale (27 million NIS abroad) an 86 million NIS increase loans and short-term investments due to expected receipts in the Northern Lanes Project, a 4 million NIS increase in deposits in banking corporations and a 37 million NIS increase in accounts receivables and others. On the other hand, a 196 million decrease was listed in the cash balance (a decrease of 123 million NIS abroad – mostly due to delayed collection due to overseas project, as noted above, and a total of 73 million NIS originating from activity in Israel), and a 125 million NIS drop in short-term loans to investees, as a result of 12 million NIS in repayments of loans to overseas investees and as a result of the classification of 106 million NIS to long-term loans in investees (71 million NIS to overseas investees and 35 million NIS to Israeli investees). In addition, a 46 million NIS decrease occurred in current tax assets (22 million NIS of which due to the repayment of tax advance payments for 2010).

c. Non-Current Assets

The Company's long-term investments amount to 4,946 million NIS, a 365 million NIS increase over the end of the previous year. Key changes are as follows: an 85 million NIS increase occurred over the end of last year in the balance of real estate inventories. Regarding the inventory of overseas real estate, a 94 million NIS increase was listed originating from real estate venture activity abroad, which includes a 107 million NIS increase as a result of the first-time consolidation of a company holding companies operating in Poland as a result of purchasing the full holdings of the partner who held 33% of the rights to that company prior to the transaction. On the other hand, a 12 million NIS impairment provision was listed due to land in Hungary. Regarding lands in Israel, a net 9 million NIS decrease was listed, as 31 million NIS were paid in the reported period for development expenses due to land in Yokneam and Tirat Hacarmel, and in addition, a total of 18 million NIS was paid due to the balance of the proceeds for land in Moshav Matzliach, while on the other hand lands to the amount of 60 million NIS in projects in which construction had started in Netanya and Kfar Saba were transferred to current inventory. A 63 million NIS increase occurred in the balance of investment real estate as a result of the purchase of land in a Hadera project to the amount of 80 million NIS. On the other hand, a 17 million NIS decrease was listed in the balance of overseas investment properties due to a lot sold in Hungary. A 39 million NIS increase occurred in the balance of payables loans and deposits, of which 16 million NIS was given to the owners of the land in the Hadera project. A 143 million NIS increase was listed in the balance of loans to investees, with 106 million NIS deriving from the classification of loans from short to long-term (71 million NIS for overseas investees and 35 million NIS for Israeli investees). Furthermore, an 85 million NIS increase occurred in receivables due to concession arrangements following the progress of works in the Northern Lanes Project, the Tel Aviv student dormitory construction project and a project for the construction of a pneumatic garbage removal system in Yavneh. In addition, a 19 million increase was listed in intangible assets, with 12 million of them constituting goodwill listed pursuant to the purchase of control in an associate holding companies operating in Poland, and 5 million NIS constituting an investment in the Tel Aviv University student housing project (BOT project). A 30 million NIS decrease was listed in the balance of fixed assets (a 41 million NIS decrease abroad, contrasted by an 11 million NIS increase in Israel, with 9 million NIS of which being additions in leasehold improvements in the new office building to which the Company moved last year).

d. Current Liabilities

Current liabilities increased by 190 million NIS in the first nine months of the year, compared to the end of 2011, amounting to 4,745 million NIS. The main changes are: a 204 million NIS increase in short-term credit from banks and others, deriving on the one hand from an increase in this item due to the inclusion of 25 million NIS of credit of a company holding companies operating in Poland that became consolidated in the Financial Statements following the purchase of control in this company, and the classifications of current maturities of long-term credit to the amount of 290 million NIS, and on the other hand, from a decrease due to redemptions of short-term credit to the amount of 120 million NIS. A 35 million NIS increase was listed in dividends payable to shareholders paid after the balance sheet date on October 22 2012. A 107 million NIS increase was listed in the balance of provisions (91 million NIS of which deriving from abroad), mainly due to the continued increase in overseas activity. A 72 million NIS increase occurred in the balance of payables and credit balances, including derivatives, with 42 million deriving from liabilities due to proceeds combination transactions (Israeli transactions), and 29 million originating abroad largely due to the increase in overseas activity. In addition, a 62 million increase was listed in advance payments received from apartment buyers in Israel, mainly due to advance payments received for apartments sold with the revenue not yet listed, less the occupation of apartments in projects in Kiryat Ono, Netanya, Givatayim and Karkur. Against that, a 233 million NIS decrease was listed in the balance of payables – parties ordering works, as a result of progress in projects and the use of advance payments received in projects abroad (300 million NIS) offset by the receipt of advance payments in projects in Israel (67 million NIS mainly due to advance payments received for BOT projects – the Tel Aviv Courthouse and the Police Training Center). Furthermore, a 18 million NIS decrease occurred in employee benefits, mainly due to the fact that as part of salary agreements signed in Nigeria, employees were paid the balances of accumulated compensation (within the framework of salary agreements signed), with these salary components are paid employees on a regular basis, and a 31 million NIS decrease in subcontractors, suppliers and service providers.

e. **Non-Current Liabilities**

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 4,064 million NIS as of September 30 2012, compared to a total of 3,848 million NIS at the end of the previous year. Redemptions of the liabilities in question were listed in the first nine months of the year (a total of 353 million NIS). Current maturities of long-term loans were classified to current liabilities (a total of 290 million NIS). On the other hand, during the first nine months of the year the Company raised debentures (Series 5) in January 2012 at a total sum of 233 million NIS, as well as new credit raised in July 2012 to the amount of 413 million NIS (for additional details see also Section 7 of this report).

Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 236 million NIS, an increase of 2 million NIS from the end of 2011.

7. Details Regarding Bonds (Debentures)

Debentures – Series 2	April 18 2007
Issue date	The Union Bank Trust Company Ltd.
Trustee:	6 Ahuzat Bayit Tel Aviv The Company has received announcements from the Union Bank Trust Company Ltd. according to which it had entered into an agreement with Clal Finances Trusts 2008 Ltd., in which Clal Trusts 2007 Ltd. would take upon itself the position of trustee for this series.
NV Upon issue:	1,000,000,000 NIS
The balance of notational value in circulation as of September 30 2012	450,000,000 NIS (in March 2010 a total of 400,000 NIS of the series was replaced with Series 4).
The balance of the notational value in circulation is revalued according to the linkage terms (linked to the March 2007 Consumer Price Index):	538,839,000 NIS
Linked interest	5.2%
Sum of interest accrued as of September 30 2012	12,609,000 NIS
Market value of 1 NIS NV as of September 30 2012	1.2867
Fair value as of September 30 2012	571,688,000 NIS
Fair value interest	2.72%
Principal redemption	4 equal annual payments on each of the years from 2012 to 2015
Interest redemption:	16 semiannual payments starting October 2010
Final repayment date (principal and interest):	April 2015

For further details see Note 27.4.b and 24.4.d to the Company's 2011 Financial Statements.

Debentures – Series 3

Issue date:	September 29 2009 (the series was expanded according to the August 4 2010 shelf offering)
Trustee:	Clal Finance Trusts 2007 Ltd. 37 Menachem Begin St. Tel Aviv.
NV Upon issue:	200,000,000 NIS
Balance of notational value in circulation as of September 30 2012:	289,920,000 NIS
Interest 7.9% unlinked, sum of interest accumulated as of September 30 2012:	1,845,000 NIS
Market value of 1 NIS NV as of September 30 2012	1.0822
Fair value as of September 30 2012	306,043,000 NIS
Fair value interest	5.5%
Principal redemption:	8 equal semiannual payments starting March 2013
Interest redemption:	14 semiannual payments starting March 2010
Final repayment date (principal and interest):	September 2016

For further details see Note 27.4.c. to the Company's 2011 Financial Statements.

Debentures – Series 4

Issue date:	March 4 2010 (the series was expanded according to the August 4 2010 shelf offering).
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv.
NV on the issue date:	492,000,000 NIS.
Balance of notational value in circulation as of September 30 2012:	1,169,216,065 NIS
The balance of the notational value in circulation revalued according to the linkage terms (linked to the January 2010 Consumer Price Index):	1,260,719,000 NIS
Linked interest	4.8%
Sum of interest accrued as of September 30 2012	3,362,000 NIS
Market value of 1 NIS NV as of September 30 2012	1.1381
Fair value as of September 30 2012	1,237,569,000 NIS
Fair value interest	3.84%
Principal redemption:	5 equal annual payments starting March 2015.
Interest redemption:	16 semiannual payments starting September 2010
Final repayment date (principal and interest):	March 2019

For further details see Notes 27.4.d, 27.4.e and 27.4.g to the Company's 2011 Financial Statements.

Debentures – Series 5

Issue date	January 1 2012
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv
NV on issue date:January 1 2012	235,000,000 NIS
The balance of the notational value in circulation is revalued according to the linkage terms (linked to the November 2011 Consumer Price Index):	383,667,000 NIS
Linked interest	5.5%,
Sum of interest accrued as of September 30 2012	5,387,000 NIS
Market value of 1 NIS NV as of September 30 2012	1.0627
Fair value as of September 30 2012	415,994,000 NIS
Fair value interest	4.76%
Principal redemption :	6 equal annual payments on each of the years from 2017 to 2022
Interest redemption:	21 semiannual payments starting June 2012
Final repayment date (principal and interest):	June 2022

On July 26 2012 the Company issued additional debentures by way of an expansion of this series in return for a total of 155 million NIS. In addition, on October 18 2012 the Company issued additional debentures by way of an expansion of this series in return for a total of 537 million NIS. For further details see Note 27.4.h to the Company's 2011 Financial Statements.

8. Reporting on Exposure and Market Risk and Management Thereof

The Party Responsible for Market Risk Management at the Corporation

The party responsible for risk management at the Company is Doron Belshar, the Chief Financial Officer, a senior Company executive (see Regulation 26a in the periodic report).

The Company performs supervision on the subject of exposure to market risk. No material changes have occurred in these risks and in the linkage basis report in the first nine months of 2012 compared to that detailed in the December 2011 yearly report (see also Note 33 to the Yearly Financial Statements).

9. Sensitivity Tests

a. Sensitivity Tests as of September 30 2012 that Constitute a Material Change from the December 31 2011 Sensitivity Tests

The following is a sensitivity table for sensitive instruments in accordance with changes in market factors as of September 30 2012, relevant to the Company in accordance with the risks described above. The sensitivity analysis was conducted regarding the fluctuation of financial instruments the Company believes have a material influence on the Company. In cases in which the result received for the sensitivity test for the highest rate of change tested amounts to a non-material sum in its absolute value, the Company decided not to present the sensitivity test as a whole.

Sensitivity to Changes in NIS Interest Rate

	Gain (Loss) from Changes			Fair Value	Gain (Loss) from Changes		
	50% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	50% Decrease
	In Interest Rate				In Interest Rate		
	Thousands of NIS						
Receivables due to concession arrangements	(77,594)	(17,150)	(8,688)	729,373	8,921	18,083	101,194
Long-term loans granted investees	(165,540)	(40,893)	(21,049)	657,398	22,353	46,119	303,982
Long-term loans received	61,423	13,439	6,546	(1,185,085)	(6,634)	(12,512)	(70,717)
Debentures	174,258	36,556	18,390	(2,962,433)	(18,617)	(37,466)	(197,077)
EUR/NIS forward transaction	(561)	(112)	(56)	(6,450)	56	113	565
USD/NIS forward transaction	(353)	(70)	(35)	(2,413)	35	70	352
CPI transactions	1,780	361	180	2,010	(181)	(363)	(1,840)
Total	**(6,587)**	**(7,869)**	**(4,712)**	**(2,767,600)**	**5,933**	**14,044**	**136,459**

Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In EUR Exchange Rate			In EUR Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	2,429	1,214	24,289	(1,214)	(2,429)
Deposits in banking corporations	39	20	393	(20)	(39)
Short-term loans to affiliated companies	1,465	732	14,649	(732)	(1,465)
Long-term loans to affiliated companies	10,994	5,497	109,937	(5,497)	(10,994)
EUR/NIS forward transaction	(23,501)	(11,751)	(6,450)	11,751	23,501
Total	**(8,574)**	**(4,288)**	**142,818**	**4,288**	**8,574**

Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate vs. the USD		Book Value	In the EUR Exchange Rate vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	4,925	2,462	49,248	(2,462)	(4,925)
Short-term deposits	588	294	5,880	(294)	(588)
Net customers commissioning work	28,900	14,450	289,003	(14,450)	(28,900)
Subcontractors, suppliers and service providers in liabilities	(335)	(167)	(3,349)	167	335
EUR/USD forward transaction	(1,007)	(503)	(196)	503	1,007
Total	**33,071**	**16,536**	**340,586**	**(16,536)**	**(33,071)**

Sensitivity to Changes in the Naira/USD Exchange Rate

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the Rate of the Naira vs. the USD		Book Value	In the Rate of the Naira vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	11,593	5,796	115,928	(5,796)	(11,593)
Customers commissioning work	25,426	12,713	254,257	(12,713)	(25,426)
Other receivables	670	335	6,701	(335)	(670)
Subcontractors, suppliers and service providers in liabilities	(9,744)	(4,872)	(97,444)	4,872	9,744
Other payables	(2,286)	(1,143)	(22,862)	1,143	2,286
Total	**25,659**	**12,829**	**256,580**	**(12,829)**	**(25,659)**

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Sensitivity to Changes in the Exchange Rates of Other Currencies vs. the USD

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the Rates of Other Currencies vs. the USD		Book Value	In the Rates of Other Currencies vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	1,841	921	18,414	(921)	(1,841)
Short-term deposits	126	63	1,259	(63)	(126)
Customers commissioning work	27,517	13,759	275,170	(13,759)	(27,517)
Various receivables and debit balances	1,917	958	19,168	(958)	(1,917)
Short-term loans received	(879)	(439)	(8,786)	439	879
Subcontractors, suppliers and service providers in liabilities	(8,548)	(4,274)	(85,477)	4,274	8,548
Other payables	(4,438)	(2,219)	(44,381)	2,219	4,438
Total	**17,536**	**8,769**	**175,367**	**(8,769)**	**(17,536)**

Sensitivity to Changes in the Consumer Price Index

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	3% Increase	1% Increase		1% Decrease	3% Decrease
	In the CPI Rate		Book Value	In the CPI Rate	
	Thousands of NIS				
Linked loans and deposits					
Short-term CPI-linked in assets	2,857	952	95,227	(952)	(2,857)
Long-term CPI-linked loans and deposits in assets	914	305	30,467	(305)	(914)
Receivables due to concession arrangements	12,033	4,011	401,113	(4,011)	(12,033)
Long-term loans given investees	21,169	7,056	705,629	(7,056)	(21,169)
Long-term CPI-linked loans in liabilities	(16,457)	(5,486)	(548,555)	5,486	16,457
Linked debentures	(74,238)	(24,746)	(2,474,616)	24,746	74,238
CPI transactions	3,802	1,267	2,010	(1,267)	(3,802)
Total	**(49,920)**	**(16,641)**	**1,788,725**	**16,641**	**49,920**

As an analysis of a change of constituting a 5% increase (decrease) in the consumer price index does not add relevant information, we have performed the sensitivity tests for 1% and 3% rates

Additional data:

The sensitivity analyses are based on the dollar's representative rate of exchange as of September 30 2012 – 3.912.

The sensitivity analyses are based on the euro's representative rate of exchange as of September 30 2012 – 5.0649.

Known CPI (in 2011 terms) – 106.2

10. Sustainability

Since 2008 the Group has managed its activity in a structured manner according to the sustainability principle, with the aim of realizing the Group's vision of creating a sustainable living environment in Israel in particular and in the world in general. The sustainability principle requires the implementation of economic, environmental and social considerations in management and decision making processes, and in deciding to adopt this approach, the Group chose to join an ever-growing number of leading world companies seeking to promote proper business behavior, which will allow global growth and prosperity without having a negative impact on humanity and the environment and the needs of future generations.

If, in the past, this behavior was particularly vital for companies active on the international stage, today, as the Company sees it, sustainability is also vital to domestic companies and the influence of sustainability on the activities of these companies is evident.

A key challenge in sustainability management derives from the absence of agreed-upon internationally-accepted sustainability management tools. Therefore, the Group has chosen to develop unique management tools suitable to the Group's needs, including characterizing existing processes, defining agreed-upon involvement points in the field of sustainability and subsequently, the assembly of procedures and establishment of computerized management systems for reporting. In addition, in order to establish and deepen capabilities in the field of sustainability, it was decided to appoint a sustainability supervisor in each of the primary subsidiaries in the Group subordinate, in professional terms, to the Company's VP of Sustainability, in order to implement these tools.

The Group continued to deepen sustainability management processes in 2012. The following steps were taken, among others:

- The process of improving project management tools according to the sustainability principle in the three degrees of sustainability, society, environment and economy, in the development, planning, implementation and operation contexts has continued.
- Purchasing procedures were laid out for the Group that require activity in accordance with norms in engagements with suppliers and service providers, implemented by the acquisitions departments of the group companies.
- The implementation of principles for the participation of interested parties in Group activities continued and the circle of collaborations with interested parties such as the Society for the Protection of Nature, the Jerusalem Institute, the Engineers' Union and the Ministry of Industry was expanded.
- Activity to implement sustainable design principles by accompanying projects through the variety of planning stages and the scopes of various projects continued.
- Sustainability workshops were held for employees in Kenya, Guatemala, the Czech Republic and Germany.
- In order to reduce the Group's environmental footprint, a process of mapping and analyzing environmental influences was carried out, focusing on carbon emissions and fuel consumption, electricity, water and aggregates. The Group characterized mapping data to sites fixed in Israel for the purpose of establishing an

environmental management system, which is undergoing development. In addition, as part of the examination of the subject of energy surveys in the corporation, tasks were defined in the work plans of the Group members at relevant sites, such as the Solel Boneh asphalt plants.

- A mapping was made of CO2 emissions as a result of the Group's activity in Israel. This analysis detected the main sources of emissions, and recommendations were put together for the posting of multi-year reduction goals according to the Group's various activities. The subject is being examined for the purpose of implementation
- An examination is underway of the implementation of management systems for the protection of the environment (IS 14001) and safety (IS 18001) in Group companies, and an organized process is starting for the implementation of these standards under the supervision of HQ.
- To establish the sustainability management, Company Group management has decided to adopt the Sam Group Holdings index, which implements the Dow Jones sustainability index. Adoption of the index is a voluntary process. The measurement takes place as part of the Company's decision to act in preparation for compliance with international goals and to implement best practices in the fields of sustainability, in congruence with the behavior of leading world companies.

  For this purpose the group performs internal analyses of the SAM reports, providing, among other things, grades according to sectors (for instance for the field of renewable energy, water etc.); as well as average grades and threshold grades that allow for an in-depth learning process, alongside new goals to be achieved, thus challenging the companies and giving them the opportunity to improve their grades accordingly.

  Over the course of the year the Group has begun to apply in-depth study of the SAM report. The results of the report's analysis will allow the Company to be tested according to leading global criteria and estimate its sustainability, thus deriving the Group's improvement and development challenges in the field of sustainability. The SAM results the Company received in November showed a significant improvement in the assessment of SAM data for all Group companies, and some of them even reach the global average in their areas of activity.

11. <u>Social Involvement and Contribution to the Community</u>

The Group continued to expand its community relations activities in 2012, while emphasizing the Group's commitment to future generations by investing, *inter alia*, in projects promoting sustainability education, contributions and welfare activities. The Group sees itself as responsible not only for building and developing the country in such a way so as to prevent harm to the environment and to the future, but also to nurture the human society in which its business activity takes place.

The Group invested some 1,198,000 NIS in the first nine months of 2012 in various social and educational activities in Israel and around the world, and took part in a variety of activities in the field, including: adopting ORT Schools, accompanying the "young business leadership" project in northern Israel, founding a library at an at-risk children's center, accompanying schools in nature outings, adopting the LOTAR unit as part of the "Adopt a Warrior" campaign, supporting 50 nonprofits, renovating community centers, donating to Variety children, supporting activities with at-risk children in Israel's periphery, paving a bike path at Megiddo – which will be Israel's first competitive 5-kilometer bike racing track – and more.

Beyond the economic investment, the Group allows its workers to take an active part in volunteer activity, and over the course of the first nine months of the year, 600 volunteer hours were provided by employees in lieu of work hours.

The group harasses the professional skills, knowledge and capabilities it has acquired over the years in favor of social activity, for instance: renovations and carpentry work by Group workers, consulting and planning on the subject of green construction and more.

12. Board Members with Accounting and Financial Capabilities

In accordance with the Securities Authorities guidelines regarding reporting on directors with accounting and financial capabilities, the Board of Directors has decided that the minimum number of such directors will be three.

In the opinion of the Board of Directors, taking into account the nature of the Company as a holding company for companies operating largely in the same industry, this number of directors with accounting and financial capabilities will allow the Board of Directors to meet its obligations, in particular as regards the examination of the Company's financial status and the preparation and approval of the Company's Financial Statements.

The following is the list of six directors with accounting and financial capabilities, who are not employed by the Company in any other position:

Irit Isaacson, Shmuel Berkovitz, Nir Zichlinsky, Efrat Peled, Yosef Alsheikh and Moshe Lachmani (serving as Chairman of the Board of Directors as of July 1 2012).

13. The Board of Directors and Company Management

On March 29 2012 Mr. Israel (Izzy) Tapuchi concluded his service as external director at the Company.

On April 3 2012 Mr. Yitzhak (Khaki) Harel was appointed external director at the Company.

On June 30 2012 Ms. Ravit Barniv concluded her duties as Chairwoman of the Board of Directors and on July 22 2012 she concluded her duties as Company director.

On July 1 2012 Mr. Moshe Lachmani was appointed Chairman of the Company's Board of Directors

14. Financial Statement Approval Process

The Company organ responsible for approving the Financial Statements is the Company's Board of Directors. The Financial Statements are brought before the Board of Directors for discussion and approval after the Board's Finance and Financial Statements Examination Committee has discussed it in its meeting and has recommended that the Board of Directors approve the Financial Statements prior to their approval by the Board of Directors.

The Finance and Financial Statements Examination Committee consist of three Board members (who are also members of the Company's Audit Committee):"

a. Mr. Yosef Alsheikh, Chair of the Committee – external director.
b. Mr. Yitzhak (Khaki) Harel – external director (Mr. Harel replaced Mr. Izzy Tapuchi on the Committee starting April 3 2012)
c. Mr. Shmuel Berkowitz (note that over the course of the period between March 7 2012 and March 22 2012, Mr. Moshe Lachmani served on the Committee in lieu of Mr. Berkowitz).

All members of the Committee posses the ability to read and understand financial statements and most of the committee members are external directors, most of who have financial and accounting capabilities. For additional information regarding the Committee members see Regulation 26 in the Additional Information on the Corporation report for 2011.

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A detailed presentation is given by Company executives and other to the Finance and Financial Statement Examination Committee as well as the Board of Directors (which discusses the issue after the discussion at the Finance and Financial Statement Examination Committee), on the matter of the key points of the Financial Statements, material issues in financial reporting, including as regards transactions not carried out over the normal course of business, if any, estimates and assessments applied that were employed in the Financial Statements, internal controls related to financial reporting, the completeness and propriety of disclosure in the Financial Statements, the accounting policy adopted and the accounting treatment applied to the corporation's material issues and the changes occurring therein, including changes deriving from the first-time application of new standards, value assessments, including the assumptions and estimates that lie at their base, upon which the data in the Financial Statements relies.

The meeting of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements was held on November 22 2012. Present at the meeting in question were Yossef Alsheikh, Yitzhak (Khaki) Harel and Shmuel Berkowitz; also attending was Mr. Moshe Lachmani. The following senior executives also took part in the meetings of the Finance and Financial Statements Examination Committee held on November 25 2012 – Ofer Kutler (CEO), Amit Segev (Deputy CEO), Doron Belshar (CFO), Ronit Rosenzweig (Accountant) and Ronit Biran (Internal Auditor). Also taking part in the meeting of the Finance and Financial Statements Examination Committee and in the meeting of the Board of Directors discussing the approval of the Financial Statements was the Company's external auditor, who attended to the issues arising in the discussions of the Finance and Financial Statements Examination Committee and those of the Board of Directors and presented key subjects that arose over the course of the audit or the review of the Financial Statements.

Pursuant to the process of approving the Company's Financial Statements by the Board of Directors, a number of days prior to the regular Financial Statement approval meeting, a draft of the Company's Financial Statements including the Board of Directors Report and a Description of the Corporation's Business is passed on to the members of the Finance and Financial Statements Examination Committee and the other members of the Board of Directors to study. Prior to the meeting of the Board of Directors, the Finance and Financial Statements Examination Committee provides its recommendations on the matter of the approval of the Financial Statements and informs it of any fault or problem discovered (if any) over the course of the examination. The Board of Directors has established that providing the recommendations at least 48 hours before the meeting constitutes a reasonable period of time. The Board of Directors estimates that the Committee's recommendations were provided a reasonable period of time before the discussion by the Board of Directors, in light of the scope and complexity of the recommendations.

Moshe Lachmani	Ofer Kutler
Chairman of the Board of Directors	CEO

November 25 2012